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AGRICULTURAL CREDIT ENHANCEMENT (ACE) PROGRAM

QUARTERLY REPORT Q4 FY 2011

JULY 1 – SEPTEMBER 30, 2011



Photo: H.E. Minister Rahimi meeting with Mr. Tora, President of the Habib Tora Company Ltd, one of the major exporters of high-quality dried fruits and nuts in Afghanistan, during the “Perishable Logistics Summit” organized by ACE on September 25th, 2011.

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QUARTERLY REPORT

QUARTER 4, FISCAL YEAR 2011

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EXECUTIVE SUMMARY

By the end of the fourth quarter 2011, the Agricultural Credit Enhancement (ACE) Program had generated awareness and achieved major progress in the establishment and management of the Agricultural Development Fund. In the month of August, MAIL concurred with the ADF policies and procedures manual, which was a significant achievement, and on September 29th the Ministry of Agriculture, Irrigation and Livestock (MAIL) hosted the inaugural meeting of the ADF Advisory Board.

The Advisory Board issued several resolutions that are crucial for the future of the Agricultural Development Fund, among them: a) Ratification of its concurrence with the ADF Credit Policies and Procedures, b) Approval of the Advisory Board's internal procedures, c) Agreement on the legal personhood of the ADF and on the timeline for its registration. Both MAIL and the ACE program will redouble efforts to ensure that the ADF is registered before the end of December 2011. Once the ADF is legally established, the Advisory Board will be replaced by a Board of Directors.

The Credit Committee granted approval for seven new loans totaling \$5.3 million USD, these loans will assist borrowers in the provinces of Wardak, Herat, Balkh and Nangarhar. ADF has disbursed over \$9.5 million USD to agribusinesses and intermediaries while maintaining a 0% default rate overall. At this point, ACE has directly benefitted 8,708 farmers in 23 provinces of Afghanistan. \$4.76 million USD has been disbursed to 54 Seed Enterprises in 18 provinces and has benefitted 3,823 farmers up through the end of the quarter.

ACE organized The Perishable Logistics Summit on September 25th in collaboration with MAIL to discuss opportunities to improve access to refrigerated transport at reasonable prices and increase the competitiveness of Afghan produce in the international market. A major outcome of the Summit was the beginning of the negotiations between two shipping agencies and export companies, which is expected to result in a 25 percent decrease in shipping costs, with positive and direct effects on the competitiveness of Afghan agriculture. The summit was largely broadcasted by the local media which generated significant awareness for the ADF.

ACHIEVEMENTS

JULY – SEPTEMBER 2011

- APPROVED SEVEN NEW LOANS TOTALING \$5.3 MILLION USD TO AGRIBUSINESSES IN WARDAK, BALKH, HERAT, KABUL AND NANGARHAR.
- FORMALIZED THE ADF ADVISORY BOARD, IN COLLABORATION WITH MAIL, WITH AN INAUGURAL MEETING ON SEPTEMBER 29, 2011.
- OBTAINED MAIL CONCURRENCE ON THE ADF POLICIES AND PROCEDURES MANUAL.
- PROVIDED CREDIT TO 8,708 FARMERS IN 23 PROVINCES THROUGH NON-FINANCIAL INTERMEDIARIES
- DISBURSED \$9.5 MILLION USD OF ADF LOANS TO AGRIBUSINESSES AND INTERMEDIARIES, MAINTAINING A 0% DEFAULT RATE.
- IN COLLABORATION WITH MAIL, HOSTED THE 'PERISHABLE LOGISTICS SUMMIT', AN EVENT THAT BROUGHT TOGETHER PRODUCE TRADERS, SHIPPING AGENCIES, FREIGHT FORWARDERS AND EXPORTERS TO INCREASE EXPORT COMPETITIVENESS
- LAUNCHED A MODIFIED VERSION OF MURABAHAH, PROFIT-SHARING FINANCIAL PRODUCT AIMED AT THE PROVISION OF CREDIT TO SUPPORT THE FOOD PROCESSING INDUSTRY BY PARTIALLY FINANCING PRODUCTION COSTS.
- ORGANIZED FIVE AGRICULTURAL CREDIT SHURAS TO GENERATE AWARENESS FOR ADF LENDING OPPORTUNITIES AND ISLAMIC COMPLIANT PRODUCTS IN THE PROVINCES OF KNAR, LEGMAN, BAMYAN, BALKH AND PAKTYA.
- ASSISTED ADF CLIENTS WITH TECHNICAL ASSISTANCE IN PRODUCTION, SALES AND MARKETING THROUGH TAILOR-MADE APPROACHES. FACILITATED SALES CONTRACTS FOR BAMYAN POTATO COOPERATIVES AND KABUL TRADERS.
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After the successful launching of the Agricultural Credit Shura as an instrument to enhance awareness for ADF lending opportunities and Islamic compliant financial products in the previous quarter, ACE organized five new Agricultural Credit Shuras. These Shuras were held in the provinces of Kunar, Laghman, Bamyan, Balkh and Paktya. The project designed a new Sharia compliant Murabahah Profit-sharing product, which will be used as a vehicle to lend to processing industries.

The value chain unit organized the Wheat Value Chain and Policy Workshop in Mazar-e-Sharif on July 27th, 2011 to identify the obstacles limiting the growth of the wheat value chain. Following the identification and prioritization of issues, ACE will collaborate with other development initiatives to introduce a combination of technical assistance, market development support and financial services. The team supported the Bamyan Potato Cooperatives throughout the crop production cycle with a particular focus on the post-harvest handling and marketing. ACE also facilitated meetings between the representatives of the cooperatives and potato traders and exporters from Kabul. As a result of these efforts, a deal with Tak Dana Company for over a thousand MT of Bamyan-originated potato is being negotiated. In the next quarter, through an Agricultural Modernization (ACE) grant, the program will support the participation of the Afghan producers in the International Indian Trade Fair which will be held in New Delhi by mid-November. ACE has already started coordinating with MAIL on this process.

The Market Information Unit finalized the basic structure of the Knowledge Management Platform (in Dari: PAYWAND) and is in the process of finalizing the KMF website. ACE also produced the *"Pomegranates Market Brief; and an overview on export potential"* and disseminated these materials through MAIL. The MIS unit is preparing the quarterly trade report for Afghan agricultural products and has already started the discussions with MAIL on a transition strategy for the KMF and capacity building for MIS/MAIL staff.

ACE approved a new ADF-Challenge grant of \$72,454 USD to support the Farm Service Center Association of Afghanistan (FSCAA) with training in accounting and accounting software for their borrowers. A new ADF Innovation Grant of \$35,126 USD was processed to support the Eastern Region Fruit Growers Association (EFGA) to use M-PAISA for the facilitation of loan repayment from farmers in Nangarhar, Kunar and Laghman.

The project designed a financial product for women, ZAHRA, which will be launched in the next few months. Zahra is a Sharia compliant financial product specifically for female agribusiness entrepreneurs already operating medium-scale enterprises, individually or in groups.

Component I: Delivery of Credit Services

The delivery of credit services constitutes the core activity of the ACE project. For this purpose and in the absence of financial institutions interested to engage in agricultural lending, the project primarily partners with non-financial institutions and agribusinesses that on-lend to farmers.

In the last quarter, the ACE lending component completed the fourth quarter (FY 2011) with many notable achievements. The project has continually and rapidly adapted to lessons learned through implementation process and the constantly evolving political and security situations. As described in the previous quarterly report, some of the most fundamental assumptions on which the project was designed such as: “at the right price, the commercial financial institutions will engage on agricultural lending” and “the government will register the ADF in the months following inception” did not come to fruition. After establishing the basis for the operation of the Agricultural Development Fund, ACE has taken measures to address these challenges, while still making credit available to agricultural. The program’s approach to value chain constraints through financial services combined with technical assistance in production, marketing and trade has produced encouraging results and new opportunities for commercial farmers with limited or no access to financial services.

Quarter four was characterized by overall greater collaboration between ACE and MAIL. One significant achievement consisted of MAIL’s concurrence with the ADF Policies and Procedures Manual signed by H.E. Minister Rahimi. MAIL committed to the immediate establishment of Advisory Board, starting in early September, which will pave the road towards the establishment of the ADF. Until the ADF is ratified as an executive agency, and thus lending funds are available to be disbursed through the Ministry of Finance, MAIL requested that USAID approve an additional \$10 million USD through the ACE contract to continue lending until such time that the funds channeled through the national budget are available. These developments constitute an important milestone to the establishment of a functional advisory board and the overall legal establishment of the ADF.

On September 29th, ACE organized the first ADF Advisory Board, a milestone event in the history of ADF. The first Advisory Board made three important strategic decisions for the future of organization. First, the Advisory Board agreed to continue the operations under the new governance policies and procedures. The new governance policies give the Advisory Board a directional strategic role while strengthening the role of Credit Committee as a decision body. Second, the Advisory Board set up the new Lending Guidelines in recognition of the need to create a long-term sustainable source of income for the ADF. Third, the Advisory Board decided to start the process of the legalization of ADF as a separate independent legal entity. A committee in charge of the progress was assigned to the task of starting the process. Overall the meeting was very successful and all decisions were made in consensus. The board is composed by H.E. Mohammad Asif Rahimi, Minister of Agriculture, Irrigation and Livestock (MAIL), Raz Mohammad, Deputy Minister of Irrigation and Natural Resource Management, Abdul Ghani Ghuriani, Deputy Minister of Agriculture and Technical Affairs, USAID, represented by Mr. Kevin Sharp, Deputy Director of USAID’s Office of Agriculture, and Juan Estrada, Chief of Party of the ACE Program.

Additionally, the project completed the standardization process of the loan application package. A re-designed loan summary form which ensures the harmonization of the information collected for all ADF loans is now in place. The new template was tested for the first time in the two ACE Technical Review Committees held on September 24th and 25th for six credit proposals. ACE and MAIL representatives agreed to overhaul the credit presentation process and use a standardized version of loan proposal template.

ACE, in collaboration with MAIL and USAID, held four ADF Credit Committee meetings during which ten loan packages were discussed. The loan package for Sayed Jamal Flour Mill was discussed during all

the Credit Committee meetings and after three delays the loan package was approved on September 28, 2011. In total, ACE achieved final approval for five loan packages in during the reporting quarter.

Table 1: ADF Credit Committee Results – Quarter 4 FY2011

ADF Credit Committee Meetings – Quarter 4 FY 2011				
Meeting Number	Date of Meeting	Loan Application	Amount	Decision
Clients Sensitive Information				

The loan for Dr. Abdul Wakil Farmers Association was approved by the ADF Credit committee on July 5th, 2011. In September, ACE signed the contract with the association for the \$230,000 loan. The Dr. Abdul Wakil Farmers Association is located in Wardak province and will use the loan to purchase apples from 60 commercial farmers. The loan was fully disbursed on September 20th, 2011.

The ADF Credit Committee of September 28th approved four loans and due to time limitations postponed the discussions on Tajzada Licorice Ltd. and the Exporter's loan to the following week. After several discussions, the Committee approved a loan of \$2 million USD to the Sayed Jamal Flour Mill. The company will use \$1 million USD to purchase wheat from farmers whereas the other \$1million USD will be on-lent to 71 wheat wholesaler and a cooperative with 2,000 farmers. The ADF Credit Committee agreed on a second loan for Javed Afghan Thresher Company, a manufacturing business based in Jalalabad which requested \$900,000 to manufacture wheat and rice threshers. The ADF committee decided to approve the loan with four conditions: 1) The client must first repay the outstanding ADF loan; 2) The company must present a strategy to sell the threshers on credit; 3) Provide a plan on how it will overcome Pakistani competition; and 4) Register the collateral of the new land and factory within the next three months.

A loan of \$700,000 USD was approved for Afghan Red Gold Saffron Company, a Herat based enterprise which requested the credit to purchase saffron flowers and on-lend to 150 farmers to expand their current production capacity. The loan was approved unanimously. The Committee also approved the loan application for Samsoor Ban Company, a Wardak based business, for \$224,000, with the change in collateral, to purchase agricultural tools, fertilizers and sprayers.



On October 5, 2011 the ADF Credit Committee approved a loan for Yaqoobzada Company and another for seven dried fruit exporters represented by the Afghanistan Almond Industry Development Organization (AAIDO). Since these loans were scheduled to be presented in September and were postponed by MAIL, ACE is including them loans in Quarter 4, FY2011.

Yaqoobzada Company is the largest exporter of fresh and dry fruits in Afghanistan and requested \$715,000 as working capital to fulfill a contract to supply 150MT of dry figs and 150MT of red raisins to Ishan General Trading Company in Dubai. The value of this contract is \$1.2 Million USD.

AAIDO will serve as an intermediary for the Exporters' loan and will use their Credit Management Unit (CMU), supported by ACE, to administer and recover the loan, this will include verifying trade documents and collateral, monitoring all receipts of funds and processing payments. ACE/ADF will upgrade its existing grant to AAIDO and provide technical assistance to strengthen the CMU throughout the process. The loan of \$500,000 will enable 7 exporters of fresh and dry fruits, out of a possible 20, to purchase produce from 400 farmers on cash basis. The exporters constitute a subset of those trained and supported by Roots of Peace and they have been in business an average of 15 years and therefore have ample knowledge of the market. The loan will help substitute cash advances typically provided by Pakistani traders at predatory rates, allowing Afghan exporters the freedom to choose where to sell their produce. ROP and AAIDO are currently facilitating trade arrangements in India and Dubai to help support the process.

Throughout the July 1st – September 30th period, the project disbursed \$4.7 million USD to 54 ANSOR seed enterprises in 18 provinces across Afghanistan. The remaining amount of \$ 192,655 USD under the original obligation will be disbursed in October. The ACE credit administration and grants teams have worked very closely with ANSOR CMU staff to increase their capacities in financial management and accounting, loan administration and reporting. Until now, ACE has disbursed over \$9.5 million USD to agribusinesses, intermediaries and farmers in Afghanistan to support the value chains of wheat and wheat flour, fresh and dried fruits, potatoes, honey, and saffron, while also assisting farmers with loans to procure agricultural machinery and tools.

The Agricultural Credit Shura proved to be a very effective way of generating awareness for ADF lending opportunities. After the first two Agricultural Credit Shuras, held in Logar and Kabul Provinces during July and September, ACE organized five more events in the provinces of Laghman, Bamiyan, Paktya, Balkh and Kunar. The Shuras were organized in collaboration with partners such as the Provincial Reconstruction Teams and the DAIL offices.

Table 2: Agricultural Credit Shura Meetings Quarter 4 FY2011

Date	Province	Partner	Participants	Notes
July 10	Bamyan	ACE/PRT	25	Women Shura
July 10	Paktya	ACE/PRT	75	
July 18	Laghman	DAIL/PRT	50	
July 26	Balkh	ACE	75	5 women attendees
September 18	Kunar	DAIL/ACE	50	



Building a strong ADF Credit Administration Unit

At the end of the fourth quarter FY2011, ACE has disbursed over USD 9.4 million USD, of which, \$5.4 has gone to financial institutions. The ADF continues to maintain a 100% repayment rate, which is very unusual for Afghanistan. To continue establishing a functional ADF system, ACE developed the following instruments during the last quarter.

- **Borrower Recommendation Letter** - This letter was developed to recommend certain borrowers who have an outstanding record with the ACE/ADF program. These recommendation letters are issued upon request from the borrower for future business with the ADF program as well as other business ventures. The first one was issued for the Kunar Farm Service Center this past quarter.
- **ADF Repayment Receipt** - This receipt was finalized with input from ACE/ADF's legal counsel. Its main purpose is to allow the Credit Administration Unit to confirm loan repayments have been received from the borrowers. Previously, the only confirmation was coming from ARFC and nothing was going to the borrower. Until the ADF has a solid financial software system up and running, this receipt format will be issued for all loan repayments. These receipts have been issued for all ADF loan repayments thus far.
- **Borrower Certification Form** - These forms were requested for all past, present, and future ACE/ADF borrowers. This request came from DAI's Legal Council so that ACE/ADF can demonstrate to USAID that every possible effort has been made to ensure transparency in the loan process and thereby limit the room for corruption.
- **ADF Loan Time Line** - This tool was developed to help both the Lending Team, and all ACE/ADF employees, get information quickly and efficiently about specific ADF loans. The Time Line form lists key dates for the life of the loan, such as approval date, disbursement date, and repayment date; along with any other loan modifications, loan issues, etc. This document is now included in all loan files, both hard and soft copy,
- **Audit Checklist Format** - During the last quarter, the hard copy and electronic ADF loan files were totally converted to the Audit File Checklist format. The file format was developed by the ACE

Internal Audit team to keep the files in proper order and ensure they are 100% complete. The files were also issued new indexes and renumbered to match all the other tools used by the Credit Administration Team (loan pipeline, ADF tracker, loan matrix, etc.).

- **ADF Repay Letter** - This letter will eventually be sent to all borrowers along with a copy of the current repayment schedule so that the borrowers can verify both that they have received the correct amount of funding and also that they are aware, and agree with, the ADF amortization schedule. As of now, this letter has been issued to a small portion of ACE/ADF borrowers.
- **Reformatted ACE/ADF Loan Pipeline** - The Credit Administration Unit completed a new format for the loan pipeline that provides a much clearer view on prospective new business opportunities and enhances the value of the document overall. New sections include: Loan Pipeline Tracker, CC Approved Loans, CC Rejected Loans, and ACE Rejected Loans. This new format allows the potential ADF loans in the pipeline to be viewed with much more clarity than previously.
- **Loan Repayment Tracker** - The Credit Administration Unit created and instituted a loan repayment tracker that contains all repayment dates for all ADF loans, complete with both borrower and monthly breakdowns. Like the repayment receipts, until the ADF has a solid financial software system up and running, this tracker is the most useful tool for tracking repayments.

Besides this, a team of three expatriate advisors will complete a 100 day exercise to design and establish a comprehensive Credit Management System for the ADF. This task will be completed with the launch of the structure responsible for the generation of information for strategic decision making, safeguard the integrity of the Fund and strengthen the corporate governance of the ADF.

Sharia Compliant Financial Products

ACE/ADF was conceived with the idea that the majority of its funding would be deployed through the Afghan financial system itself – banks and non-bank financial institutions. However, due to the weakness of the financial institutions and their lack of interest in agricultural lending, ACE has continued to innovate and identify viable ways to lend to Afghan farmers and agribusinesses. During the last quarter, ACE designed another Murabahah mechanism, the Profit-Sharing financial product. The product designed by ACE aims for lending to the food processing subsector to support the purchase of fruit and cover parts of operation costs. The fundamental idea of this product is that the borrower and lender share the borrower's profit generated through the ADF loan.

Credit Management Units – Update

One of the innovations to manage the credit risks in agriculture are the Credit Management Units (CMUs), a concept developed and introduced by the ADF, are small functional units operating within non-financial intermediaries, including farmer associations, cooperatives, and agribusinesses. The program covers part of the operating costs of the CMUs, which have three fundamental objectives: a) processing individual loan applications, b) disbursing loans, and c) ensuring timely collection. The typical CMU includes 3-4 employees from the same communities in which the intermediary institution operates, thereby banking on social capital and local knowledge.

During the first eight months since the concept was introduced, over 5,500 farmers have accessed credit through four CMUs operating within two farmer associations, a group of cooperatives and an agribusiness association. These organizations have been able to disburse, manage and collect loans, achieving and maintaining a “zero” percent default rate. The CMUs, which now constitute standard

operating practice when lending to non-financial institutions, are generally funded through combination of challenge grants and the interest markup of the financial intermediary.

Gender Issues

The ACE program takes gender inclusion very seriously, rather than a token intervention, or a requirement by the client, it constitutes a commitment of the program to find ways to make agricultural credit accessible to women. This is particularly challenging in a context in which women generally do not have assets, are unable to work outside the household and lack the necessary skills to manage businesses in an efficient manner. Despite these challenges and in consequence with its commitment, ACE is embarked in an initiative to identify successful female agribusiness entrepreneurs to assist them upgrade their enterprises through credit and technical assistance and set an example of what is possible. Within this context, ACE in partnership with UNDP's Gender program and MAIL's Home Economics Directorate conducted an assessment of 44 Women Cooperatives in 15 provinces. The report will be concluded by the end of October and the findings will be presented to MAIL senior officials. The main objective of the assessment is to identify functional cooperatives ran by women, as well as to assess their current needs in terms of capacity building as a way to upgrade them to a point in which they can become ADF borrowers. The study is being carried out by Kaweyan, a women-owned business development organization with vast experience in rural development.



FATIMA ZAHRA

Shari'ah Finance for Women

In preparation to the provision of credit to women, ACE designed a new financial product exclusive for women agribusiness entrepreneurs; Zahra is a Sharia compliant financial product which caters to the financial needs of rural women already operating agribusinesses. Adopted from the name of Prophet Muhammad's daughter, Saidatina Fatima Az Zahra, Zahra also means "the shining one". The main characteristics of the new product include:

- Zahra is a Sharia compliant financial product specifically for female agribusiness entrepreneurs, already operating medium-scale enterprises, individually or in groups.
- The main subsectors of focus would be annual and perennial horticulture, livestock husbandry and agro-processing.
- The loans will be managed by a financial institution under a special set of incentives and under a risk-sharing agreement not known to the borrowers.
- The loan amounts would range between \$10,000 and \$20,000 in AFN equivalent.
- Collateral would be 100% of the loan amount, provided by male family members.
- Strict monitoring program, seeking to avoid the use of women as "fronts" to access loans.
- All borrowers would be required to take financial literacy classes, provided by a business development services company contracted by ACE.
- Those women who successfully graduate from the financial literacy program would be granted a reduction in the cost of capital (not principal).
- In addition to financial literacy, the borrowers will have access to technical assistance in an area relevant to their line of business, as well as to facilitation of market arrangements. Depending on the particular nature of the business, the program could provide closer support through a business mentorship program.

From September 26 – 28, ACE, in collaboration with USAID's Afghanistan Clean Energy Program (ACEP) and the Engineering Faculty at Kabul University, co-sponsored a Solar Food Dryer Enterprise Development Workshop in Kabul, with the participation of 20 representatives of women-owned agribusinesses, Cooperatives and Associations. The participants were from Kabul, Parwan, Herat and Nangarhar provinces. ADF facilitated a training session on basic business management, followed by a presentation of various financial services provided by the ADF. This constituted a unique opportunity to capitalize on the synergy among USAID implementing partners and also provided the platform for the pre-launch of ADF's ZAHRA program.



ACE and ADF Grants

ACE obtained MAIL and USAID approval to award an in-kind grant of \$72,453.00 under the Challenge component, to the Farm Service Center Association of Afghanistan (FSCAA) to support training activities to help the farm stores maintain suitable accounting systems and prepare appropriate financial statements and reports to the ADF and other potential lenders. Also, the project obtained MAIL and USAID approval to award an in-kind grant of \$35,126.21, under the Innovation component, to the Eastern Region Fruit Growers Association (EFGA). This was the first ADF Innovation grant awarded by the project. This grant will enable EFGA to contract the services of Mobile Service Development Afghanistan Limited (MSDA) to allow the recipients of agricultural loans to make payments through e-money. The company will also provide training to EFGA members on how to use the system.

The project is working on an Agricultural Modernization grant to support the participation of Afghan agribusinesses in the India International Trader Fair which will take place in New Delhi, India in November 2011.

Internal Audit and Compliance

Throughout the past quarter, the Internal Audit Unit assisted the project through carrying out pre-audits, risk assessments and financial audits for loan packages in the pipeline. The tables below indicate the type of report provided for approved and potential ADF loans.

Table 3: Pre-audit reports

Pre Audit Reports		
No	Client	Status of the loan
1	Eastern Region Fruits Grower Association	Approved
2	Dr. Abdul Wakil Farmer's Association	Approved
3	Samsoor Ban Agriculture Services Company	In the Pipeline
4	Javed Afghan Thresher Company (Second Loan)	In the Pipeline
5	Afghan Red Gold Saffron Company	In the Pipeline
6	Rana Seeds and Agro Business Company	In the Pipeline

7	Chardara Agriculture Seeds Services Association	In the Pipeline
8	Tajzada Licorice Company	In the Pipeline

Table 4: Financial Audit reports

Financial Audit Reports		
No	Client	Status
1	Afghanistan Almond Industry Development Organization (AAIDO)	Approved
2	ANSOR Kunduz Seed Enterprises	Approved
3	ANSOR East Region Seed Enterprises	Approved
4	Javed Afghan Thresher Company (First Loan)	Approved
5	AAIDO Grant (IITF 2011)	Approved
6	AAIDO Grant (ACE Agricultural modernization grant)	Approved
7	Kaweyan Business Development Services Grant	Approved
8	Bamyan Potato Cooperatives	Approved



Photos: ACE Audit and Lending team meeting with the owner of Sayed Jamal Flour mill, a Mazar-e-Sharif based Company which will receive a \$2 million USD ADF loan.

Table 5: Risk Management report

Risk Management		
No	Client	Status
1	Eastern Region Fruit Growers Association (EFGA)	Approved
2	Samsoor Ban Agriculture Services Company	In the pipeline
3	Javed Afghan Wheat Thresher Company (Second Loan)	In the pipeline
4	Afghan Red Gold Saffron Company	In the pipeline
5	Rana Seeds and Agro-Business Company	In the pipeline
6	Chardara Agriculture Seeds Services Association	In the pipeline
7	Tajzada Licorice Company	In the pipeline



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Credit revamps Afghan Agro-industry

USAID provides credit to progressive entrepreneurs



Photo: ACE Program

Mr. Haji Malang, owner of Javid Thresher Company, based in Nangarhar province.

An ADF loan supported the company to increase its sales by 64 percent, created 67 full time jobs and provided 6,600 far households with access to agricultural machinery.

In December 2010 Haji Malang, owner of Javid Afghan Thresher Company obtained a loan from the Agricultural Development Fund (ADF), a program funded by USAID and implemented in partnership with Afghanistan's Ministry of Agriculture, Irrigation and Livestock.

The company, the first industrial scale manufacturer of agricultural machinery in the country, had for the first time access to formal credit to purchase raw materials and increase its production.

The impact of the additional injection of capital was immediately evident; 10 months after receiving the loan Javid Afghan Thresher Company had increased its production and value of sales by 41 and 64 percent, respectively. The company created an additional 67 full time jobs and the machinery, mainly cereal threshers benefited some 6,600 farm families in 6 provinces.

Not only the company revamped its production and increased its market share competing with imported machinery, but it was able to pay its loan in full and is currently applying for a second loan to modernize its production line.

Javid Afghan Thresher Company is one of many agribusinesses that benefitted from access to credit through the ADF. The immediate impacts of interventions of this type are increase in industrial output, creation of jobs, reduction of imports and access to mechanization for thousands of Afghan farmers.

In addition to supporting agribusinesses, during its first year of existence the ADF also provided loans to over 8,700 farmers through a variety of financial and non-financial intermediaries.

The ADF was established through a \$100 million grant provided by USAID to the government of the Islamic Republic of Afghanistan and is successfully filling the gap that limited farm and non-farm agricultural investments.

ADF LOANS APPROVED AND DISBURSED TO END BENEFICIARIES

	Borrower	Loan Type - NFI, FI, or Agribusiness	Approved	Province	\$ Loans Approved by MAIL & USAID*	Disbursed Loan Amount	Repaid Loan Amount (with interest)	Direct Beneficiaries
Clients Sensitive Information								

Loan Pipeline Tracker Report								
<u>Borrower</u>	<u>Loan Type FI, Direct, NFI, NBF</u>	<u>Region</u>	<u>Loan amount requested</u>	<u>1st Visit</u>	<u>Other Visits</u>	<u>Regional Office</u>	<u>Loan Application Stage PRELIM MEDIUM, FINAL</u>	<u>Notes and Comments</u>
Clients Sensitive Information								

Component 2: Agricultural Modernization and Value Chain Development

Value Chain Strengthening

The purpose of ACE's Value-Chain strengthening unit is to provide technical support to the lending operations, as well as to ADF clients. The unit leads the technical assessment of production; processing and marketing activities proposed by loan applicants and also provides technical assistance to ADF borrowers.

Throughout the quarter, the ACE Value Chain team assisted the members of cooperatives from Bamyan province, recipients of ADF credit with technical assistance on production and post-harvest practices. The team visited the Bamyan Cooperatives several times during the quarter to inspect the farms and identify potential issues during the production process. On July 20th, the team trained representatives of the cooperatives on the usage of the MALOMAT pricing system, an electronic database that provides wholesale prices on agricultural commodities from different regional markets.



Photos: ACE value chain unit during the workshop on post-harvesting with the representatives of Bamyan potato cooperatives and interested wholesalers. Kabul, September 11-16, 2011.

From September 11-16, ACE invited the heads of Bamyan cooperatives to Kabul for a Post-Harvest and Marketing workshop, organized specifically for them. During the 5 day workshop, the group met with different potato traders from the Kabul market, aiming at assisting the potato growers with market contacts and sales. The Value Chain team estimates that the recipients of ADF inputs on credit in Bamyan will have an increase in production from 750 to 900 Seers per Jerib, consistent with a 20 percent increase in production as compared to the previous year. The VC and M&E units will team up later in October to conduct a research study to validate this hypothesis.

Tak Dana Co. was one of the companies showing interest in Bamyan potato produce. They will visit the potato fields in Bamyan in early October and observe the harvesting sorting and grading processes. The company aims at purchasing potato from Bamyan to supply to local supermarkets and export to Dubai. The representatives of the company will visit potato storage sites owned by the cooperatives, and currently the company is interested in purchasing around 1,056 MT of potatoes from the ADF clients at a price of 14.25 AFN per KG. Currently the highest price per KG in Bamyan province is about 10 AFN/kg. If the deal is finalized, the first shipment is expected by mid-October. The ACE Value Chain unit continues to offer its maximum support to the Bamyan Cooperatives and is making arrangement to assist the deal by offering packaging materials for the potatoes.

The project organized the “Perishable Logistics Summit” at the Serena Hotel on September 25th with the participation of Afghan produce traders, local transporters, shipping agencies, freight forwarders, implementers and MAIL representatives. The opening speech was delivered by H.E. Minister Rahimi of MAIL who welcomed the initiative and emphasized the importance of Afghan produce competitiveness in the international and regional markets.



Currently, the opportunity exists for improved access to refrigerated containers based on the positive response received from shipping container companies, freight forwarders and exporters. The interest of the shipping company is based on the demand for refrigerated container services in terms of volume and frequency, combined with risk mitigation strategies. Thus, a solution to the current refrigerated transport service would require three complimentary components:

1. Experienced exporters with specific commodities, volume and market destinations.
2. Shipping point infrastructure.
3. Trade/carrier requirements including risk mitigation strategies.

Having noticed that a large amounts of resources have been invested in the development of the agricultural value chains, including market development and trade promotion activities, the project observed that the results of most market development initiatives have been unsustainable, primarily due to the inability of Afghan agribusinesses to compete on the basis of price with their counterparts from other countries, due to the high cost of refrigerated transportation. Therefore, the purpose of the summit was to establish relationships between the commercial entities and find a solution to the transport issue for agricultural produce. A major outcome of the Summit was the beginning of the negotiations between two shipping agencies and export companies, which is expected to result in a 25 percent decrease in shipping costs, with positive and direct effects on the competitiveness of Afghan agriculture.

The value chain team will meet with the Bamyan Chamber of Commerce and Industries (BCCI) in early October to explore other possibilities to export Bamyan potatoes. The BCCI is looking at selling Bamyan potato to Tajikistan. The project will meet with them through the Bamyan PRT to identify solutions and strategies.

The value chain unit assisted the lending team assessing the technical feasibility for the loans submitted to Credit Committee in the month of September. Both teams met with the Kunar Farm Store Center (KFSC) to discuss their interest in a Sharia-compliant loan to purchase 300 cows which will be distributed on credit to 100 families in Kunar province. The value chain team discussed the technical side of the

request, such as milking yields per cow, lactation cycles, breeding, feed availability for the cows to be able to reach expected yields, as well as exploring market channels for milk.

Following meetings with Hariwa Habib Zahdah Company to collect information on dried fruits, the team is in the process of preparing the dried fruit value chain review. Also, ACE, in closely collaborating with MAIL, continues to coordinate the participation of Afghan agribusinesses in the India International Trade Fair (IITF) 2011, enabled through an Agricultural Modernization Grant.

Policy Framework

The ACE policy unit organized the Wheat Value Chain and Policy Workshop in Mazar-e-Sharif on July 27, 2011. Input suppliers, producers, suppliers of harvesting services, mechanical service providers, operators of storage facilities, wheat wholesalers and traders, flour mills, bakers and credit providers all participated in the workshop. The team discussed the structure of the wheat value chain and focused on the actors, nodes and roles of the value chain, seeking to identify the constraints in each node. The participants were then divided into different groups to identify the constraints within the wheat value chain and later presented the findings to the session. The ACE Policy team will arrange the second phase of this workshop, to share the constraints with the responsible institutions to address these constraints and encourage coordinated solutions. Similar to the case of wheat, ACE will conduct a saffron value chain workshop on October 16th in Herat.



Photos: From the Wheat Policy Workshop organized in Mazar-e-Sharif on July 27, collaboration between the ACE Value Chain and Policy teams.

Component 3: Coordination and Knowledge Management

The Knowledge Management Component aims at integrating production and market information currently being generated by an array of organizations, and transforming it into market intelligence applicable by diverse audiences within the agriculture sector, while building the capacity of MAIL staff to manage the system.

During the past quarter, the MIS unit focused primarily on three tasks: 1) finalizing the KMF/PAYWAND database; 2) developing mass dissemination tools for PAYWAND; and 3) continuing negotiations with MAIL and integrating their requirements within the KMF framework. The unit also produced a market brief on pomegranates and their export potential, and is currently working to finalize the quarterly trade report for the agricultural sector in Afghanistan.

First, ACE concentrated intensively on the finalization of the KMF-PAYWAND database. The database will serve as a repository for agriculture related data, offering access to several categories of market information at one time, thus, improving the flow of information within MAIL. The KMF database and website will improve the data analysis capabilities by allowing integration of different categories of market information and by offering tools for basic analysis to premium users.

The main components of the database developed until now include:

- **Prices Time Series:** Up to date prices of commodities in markets within and outside Afghanistan. Selection of price time series by commodity, market and period, based on availability and hierarchical conditional selection.
- **Trade Flows Time Series:** Imports and exports of agricultural products retrievable through customized queries with selection of trade direction, period, time frequency, Harmonized System Code (HSC), partner country and currency. Trade Reports and dynamic graphical displays offer predefined analysis on trade flows such as shares by partner countries of exports/imports, shares by commodity of exports/imports, monthly dynamic of trade.
- **Secondary Source Data:** Agriculture related studies are searchable based on specific criteria such as commodity, report type, source and year of publication.
- **Meteorological Data Time Series:** Data on weather and crop conditions available through customized queries, including frequency, period, province, weather features and crop.
- **Geo-referenced Agricultural Data:** Maps on agriculture production are brows-able by commodity, province, village or landmark.

ACE will build on the production time series component in collaboration with MAIL, since these types of data are collected through the Ministry.

Second, ACE achieved significant progress on the PAYWAND website. The website will offer the main services provided by the database in three languages; English, Dari and Pashto. The main difference between the database and the website consists on the categories of users targeted by each medium. The database is designed to respond to the needs of more advanced researchers by offering very dynamic tools. The website is a virtual replica of the database, with a more user friendly interface and with a short time lag in information between the hardware databases.

The website will allow access to agriculture market information data on all aforementioned categories, not only to MAIL but to all actors in the agricultural sector. The website will be hosted within the GIRoA site format, as sub-domain of MAIL website but with an enhanced customized Content Management System on the Back-end. From technical solutions point of view, the KMF/PAYWAND website constitutes an innovation on the information sharing media.

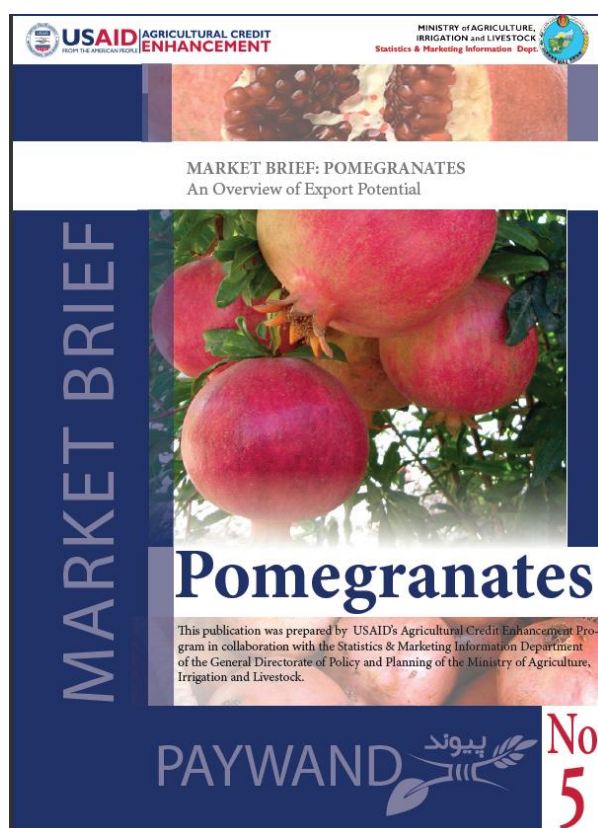
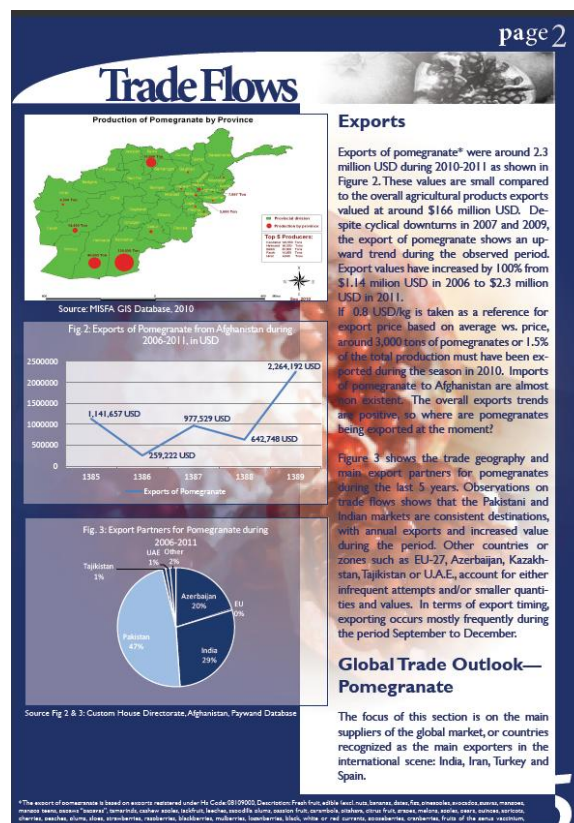
Third, during the last quarter ACE engaged in several discussions with MAIL representatives with reference to a joint-launching event and also regarding the institutional home for the database. During this period, both MAIL and ACE agreed on:

- The need of ongoing changes and improvements on the database before and after the launch, in order to accommodate short-term and long-term needs for agriculture market information within and outside MAIL.
- The need for capacity building programs to empower MAIL staff to make better use of the Paywand database.
- The need to work with MAIL and its implementing partners as a way to improve data quality.
- The need to integrate data currently available in several departments at MAIL.
- The need for more active collaboration from specific MAIL units to achieve all the above.

During the past month, the MIS Unit also developed a market brief on pomegranates from the perspective of their export potential. Also, the market briefs on melon and watermelon were disseminated through the website of the Ministry of Agriculture, Irrigation and Livestock in three languages: English, Dari and Pashto. The project is currently working on Quarterly Trade Report for Afghanistan agricultural commodities.

Consistent with the overarching vision of the ACE program, which is fundamentally building the infrastructure and the human resources that will manage the Agricultural Development Fund, the project has an ambitious an high-level capacity building program.

As part of this program, on August 18th, ACE sent 12 Afghan national technical staff to a training event provided by the Dale Carnegie Foundation on “Human Relations and Public Speaking” in New Delhi, India. The training took place from August 19-27, 2011. The participants found the training very useful and the trainers’ evaluation showed successful completion and significant increase in ACE staff scoring. This activity marks the first formal ACE capacity building intervention and will be succeeded by at least two more by the end of the year.



Participants graduate from the Dale Carnegie Human Relations and New Delhi, August 2011. Photo at right: ACE HR Manager, Naser Carnegie Course Diploma from Mr. Nitin Kapoor, the Master Trainer; New Delhi 2011.

Performance Management - ACE Progress against Targets

The ACE program is seriously committed to deliver services of the highest standard that have a positive and measurable impact on the growth of the agricultural sector. This requires a permanent program of field verifications, seeking to verify the quality of the data provided by ACE field personnel, implementing partners and financial intermediaries. Within this context, ACE maintains a central Monitoring and Evaluation Unit, which is responsible for conducting progress assessments and reporting on the program's performance, activities and impact. This effort has given a significant value to the M&E Unit. During the reporting period, efforts were made to track the performance of project activities and progress on indicators stipulated in the Performance Management Plan (PMP).

During the reporting period, and at request of the COTR, ACE added two new indicators to its PMP through modifications in the original PMP and Annual Work Plan for Option Year 1. These indicators, numbered respectively as #4.3 and #4.4 will capture ACE's results on Capacity building through tracking the number of individuals trained by ACE; and the total number of hours of training offered. Also, starting this quarter, ACE will report the indicator #1.1 and #1.2 into two levels.

- "Value of finance accessed" initially reported to USAID Afghanistan on the US Dollar value of approved ADF loans, now will contain "the value of disbursed loans" as a sub-indicators. Targets for this sub-indicator are included in the revised PMP and the Annual Workplan 2.
- "Number of individuals benefitting from financial agreements" – this indicator was originally designed to capture the total number loan agreements with agribusinesses and farmer beneficiaries. Starting in Q4 FY2011, ACE will report on the indirect beneficiaries, being farmers who benefit either through the output of the ADF loan, or through providing raw materials and jobs for the ADF primary borrowers.

Project Monitoring

Indicator #1.1- During the last quarter, ACE achieved additional ADF Credit Committee approval for seven new loans worth \$5.3 million USD for agribusinesses and traders in Wardak, Kabul, Herat, Nangarhar and Balks provinces. The total amount of ADF loans approved should have increased to \$21 million USD; however the project decided to de-obligate \$2,745,140 from the original amounts. The de-obligations came from the loans contracts with the seven Bamyan Cooperatives, BRAC Bank and AAIDO; which were unable to further on-lend the initially approved loan amounts. Another reason behind this was to enable ACE to on-lend these amounts to other borrowers. Also, till the end of the fourth quarter (FY2011), ACE disbursed over \$9.5 million USD. The Performance Indicator Data Sheet (Table 6) in the next page shows the ACE quarterly accomplishments since inception and the current cumulative actual performance against Year One targets.

Indicator #1.2 - During the last quarter, ACE achieved 3,823 farmer beneficiaries from 17 provinces in Afghanistan through 46 Seed Enterprises of ANSOR. ADF has disbursed an amount of \$153,661 to ANSOR/CMU for six new Seed Enterprises in the provinces of Farah, Badakshan, Faryab, Helmand and Kandahar; however the distribution to end-borrowers has not been completed. Up until now, ACE has benefitted directly through on-lending to 8,708 farmers in 23 provinces. As per PMP indicator definition, this indicator tracks "the number of individuals benefitting from ACE/ADF loan agreements, therefore as stipulated in the previous quarterly reports the number of loan agreements signed with agribusinesses and farmer beneficiaries will be counted against this indicator.

MAP 1: Geographical Coverage of ADF direct Beneficiaries

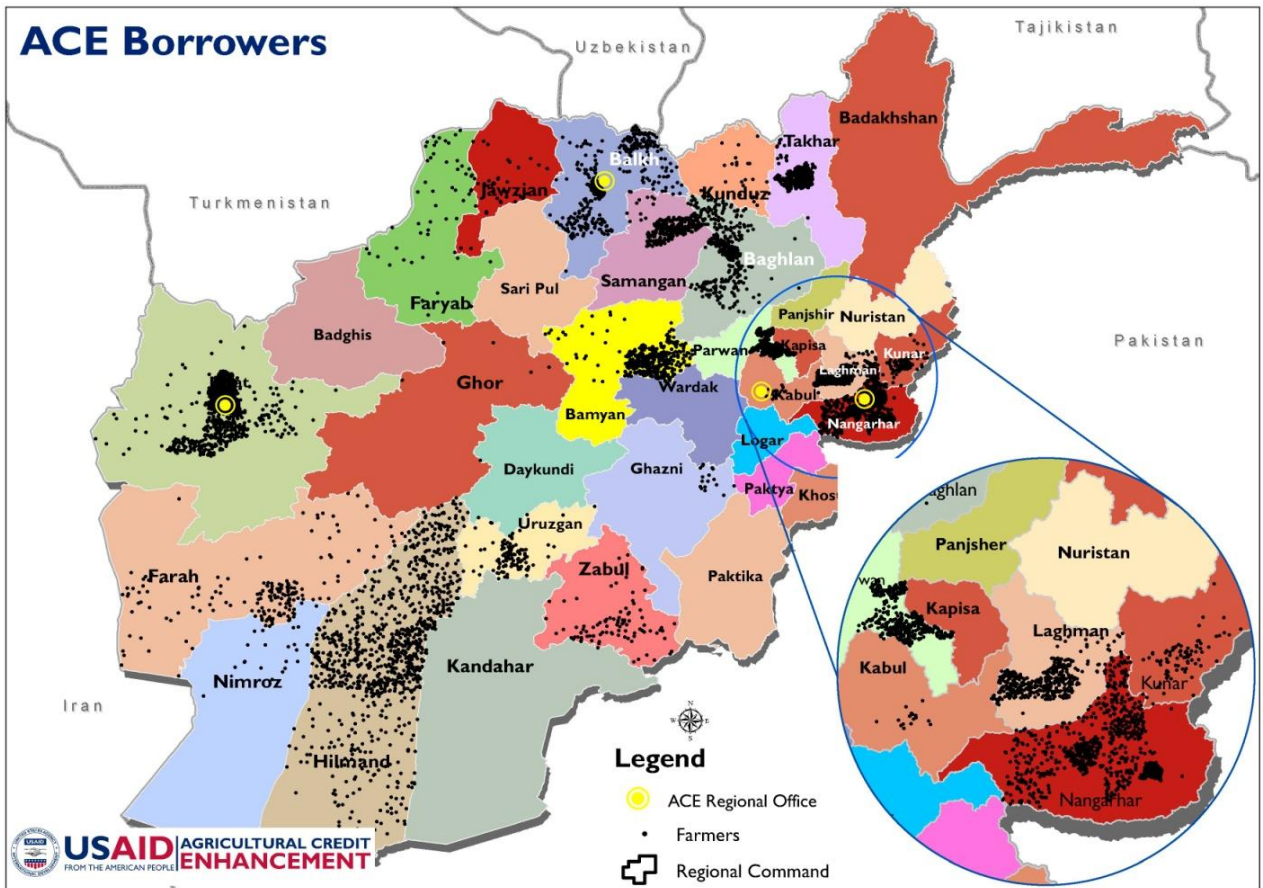


Table 6: SUMMARY OF PROGRESS TOWARDS PMP INDICATOR TARGETS

PMP INDICATOR	Q1 FY2011	Q2 FY2011	Q3 FY2011	Q4 FY2011	Actual FY2011	TARGET FY2011
1.1 Value of Finance Accessed (in US dollars)	11,150,000	16,041,750	15,922,702	18,446,562	18,446,562	31,200,000
Sub-indicator: Value of ADF loans disbursed (in US dollars)	-	-	-	9,515,771	9,515,771	10,000,00
1.2 Number of individuals benefitting from ACE or ADF financial agreements	0	2,356	3,318	3,046	8,720	10,500
Sub-indicator: Number of indirect beneficiaries achieved					8,075	10,000
1.3 Percent Increase in income by assisted farms and agribusinesses						—
1.4 Net total increase in Full-Time Equivalent (FTE) jobs created by USG sponsored agriculture activities	26	65	31	50	172	250
2.1 Value of Challenge/Innovation and Agriculture modernization grants disbursed	80,623	145,290	404,191	107,579	737,683	\$800,000
2.2 Number of participating financial intermediaries and private intermediaries on-lending funds from ADF	6	7	1	0	14	15
2.3 Number of innovative lending products established by PIs and Fis	1	1	0	1	3	2
2.4 Percentage of loan losses resulting from ACE lending recommendations	0	0	0	0	0	<5%
3.1 Total Value of domestic and export sales of Afghanistan agriculture products for firms supported by ACE						—
3.2 Number of loans approved under USAID's Development Credit Authority (DCA) mechanism	0	0	0	0	0	2
3.3 Number of public private partnerships formed as a result of USG assistance (including GDAs)	0	0	0	0	0	1
4.1 Number of conferences, workshops and other initiatives designed to foster increased credit to the agricultural sector carried by ACWG.	2	0	1	0	3	5
4.2 Number of market information and market intelligence products created and disseminated by the established knowledge management	2	5	2	4	13	12
4.3 Number of individuals trained by ACE in credit policy and operations, value chain strengthening, and market information systems	—	—	—	15	15	12
4.4 Number of person hours of training; including formal and practical training and technical visits	—	—	—	74	74	64

Table 7: ACE/ADF Direct and Indirect Beneficiaries to the level of disbursement

		Direct Beneficiaries			Indirect Beneficiaries		
No	BORROWER	Approved	Disbursed to FI/NFI	Disbursed to End Borrowers	Approved	Disbursed to FI/NFI	Disbursed to End Borrowers
1	Advance Building System	-	-	-	300	300	300
2	Javed Afghan Wheat Thresher	-	-	-	8,000	8,000	6,600
3	Sanaizada Edible Oil Extraction	200	200	-	600	500	500
4	Hamid Flour Mill	275	275	-	125	125	125
5	AAIDO	500	500	212	-	-	-
6	Helmand Farm Service Store	1,489	1,489	1,489	-	-	-
7	Kunar Farm Service Store (Muhamand Arab Ltd.)	630	630	630	-	-	-
8	Osiyo Hamkorlik	-	-	-	250	250	250
9	Season Honey	-	-	-	300	300	300
10	Sayed Jamal Flour Mill	2,000	-	-	-	-	-
11	Samsoor Ban	-	-	-	4,500	-	-
12	Javed Afghan Wheat Thresher	570	-	-	8,170	-	-
13	Afghan Red Gold Saffron	150	-	-	600	-	-
14	Yaqoobzada	-	-	-	250	-	-
SUB-TOTAL Agribusinesses		5,814	3,094	2,331	23,095	9,475	8,075
15	BRAC BANK	25	25	-	-	-	-
16	Islamic Investment and Finance Cooperative Group	800	319	319	-	-	-
SUB-TOTAL FI		825	344	319	-	-	-
17	Durukhshan Bamyān Co-op	15	15	15	-	-	-
18	Kawe Tajik Bamyān Co-op	50	-	47	-	-	-
19	Koh-e-Baba Bamyān Co-op	10	10	10	-	-	-
20	Shahemardan Bamyān Co.	59	59	59	-	-	-
21	Katway Bamyān Co-op	161	161	156	-	-	-
22	Shanbul Bamyān Co-op	74	74	74	-	-	-
23	Khwaja Sabz Posh Bamyān Co-op	22	22	22	-	-	-
24	ANSOR	3,835	3,835	3,823	86,087	-	-
25	EFGA	1,852	1,852	1,852	-	-	-
26	Dr. Abdul Wakil Farmers A.	0	-	-	60	60	-
27	Exporters' Loan	0	-	-	400	-	-
SUB-TOTAL NFI		6,078	6,028	6,058	86,547	60	-
GRAND TOTAL		12,717	9,466	8,708	109,642	9,535	8,075

Region	Number of Direct Beneficiaries	Loan Disbursed in (\$)
RC - East	3,247.0	1,533,336
RC - North	2,805.0	3,504,627
RC - South	1,318.0	214,355
RC - West	1,338.0	982,735
TOTAL	8,708.0	6,235,054

ADF Direct Beneficiaries and Loan Amount Disbursed

Legend:

- \$ Loan Amount
- ACE Regional Office
- Farmers
- Regional Command

Province	Farmers	Loan Amount (\$)
Badkhashan	338	\$381,400
Takhar	830	\$1,158,886
Kunduz	39	\$15,527
Samangan	895	\$1,378,248
Baghlan	383	\$270,708
Parwan	230,000	
Wardak	17	\$16,018
Ghazni	95	\$15,058
Zabul	112	\$21,856
Uruzgan	84	\$13,318
Kandahar	1,005	\$402,863
Hilmand	22	\$3,260
Nimroz	185	\$48,479
Farah	1,158	\$933,478
Ghor	6	\$779
Badghis	56	\$99,544
Faryab	35	\$38,369
Jawzjan	613	\$432,652
Balkh	35	\$38,369
Sari Pul	56	\$99,544
Herat	1,158	\$933,478
Baghlan (Inset)	201	\$34,368
Parwan (Inset)	18	\$2,151,279
Kapisa (Inset)	131	\$63,349
Laghman (Inset)	1,003	\$431,551
Kunar (Inset)	1,482	\$1,079,043
Nangarhar (Inset)	12	\$16,170
Chost (Inset)	12	\$16,170
Paktia (Inset)	12	\$16,170
Logar (Inset)	12	\$16,170
Paktya (Inset)	12	\$16,170
Wardak (Inset)	12	\$16,170
Herat (Inset)	12	\$16,170

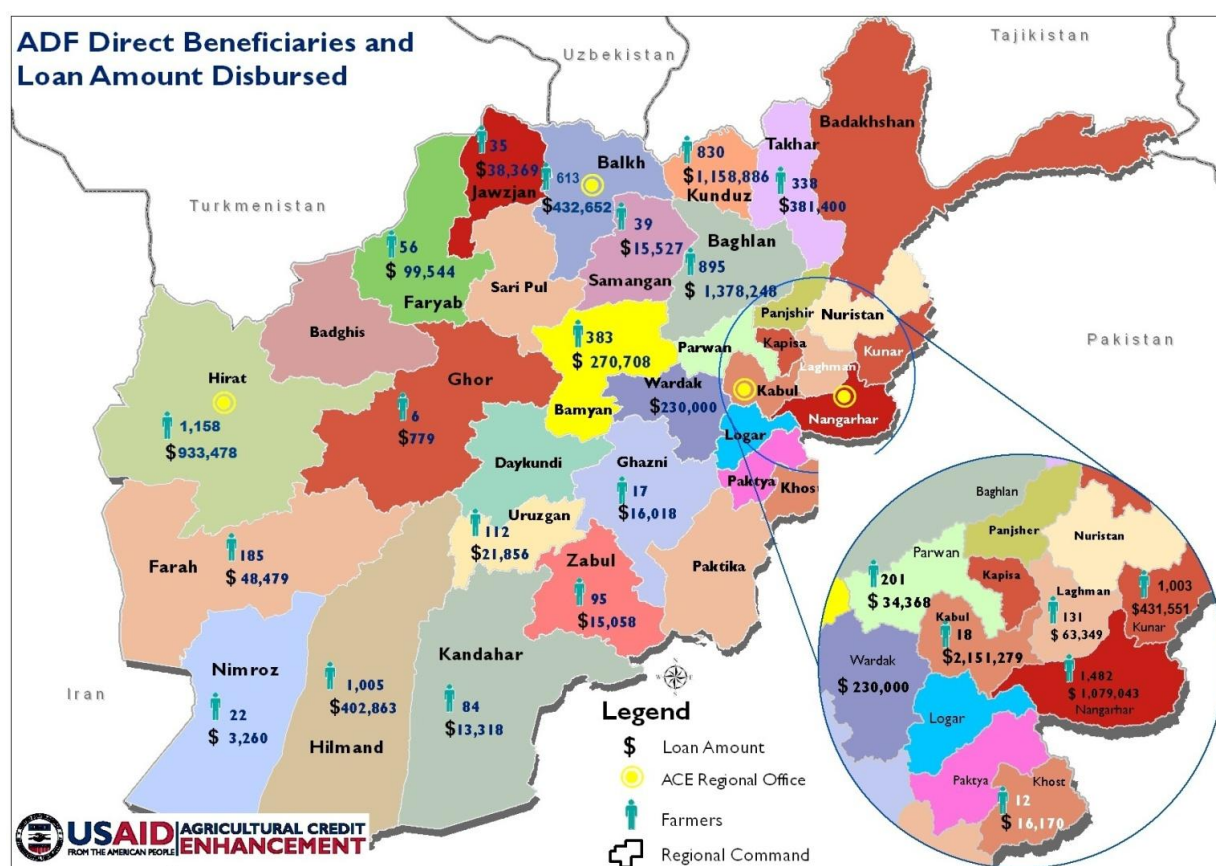
TABLE 9: Number of ACE/ADF Beneficiaries and Dollar Amounts Disbursed per Intermediary

No	Intermediary	Number of farmers	Loan Amount in \$
Clients Sensitive information			

TABLE 10: Number of ACE/ADF Beneficiaries and Dollar Amounts Disbursed per Province

No	Province	Number of Beneficiaries	Loan Disbursed \$
1	Baghlan	895	1,378,248
2	Balkh	613	432,652
3	Bamyan	383	270,708
4	Farah	185	48,479
5	Faryab	56	99,544
6	Ghazni	17	6,018
7	Ghor	6	779
8	Herat	1,147	933,478
9	Helmand	1,005	160,863
10	Jawzjan	35	38,369
11	Kabul	18	31,279
12	Kandahar	84	13,318
13	Khost	12	17,020
14	Kunar	1,003	431,551
15	Kunduz	829	1,158,886
16	Laghman	130	56,204
17	Nangarhar	1,483	686,189
18	Nimroz	22	3,260
19	Parwan	201	34,368
20	Samangan	39	15,527
21	Takhar	338	381,400
22	Uruzgan	112	21,856
23	Zabul	95	15,058
TOTAL		8,708	6,235,054

MAP 3: ACE Loan Disbursements per Province



Indicator #1.3 -Percentage increase in income by assisted farms and agribusinesses is an annual indicator which as per PMP and the Annual Workplan 2 will be reported in FY 2012. During the option year one, ACE will determine the baseline.

Indicator #1.4 - During this quarter, the number of new jobs created expressed in Full-Time Equivalent is 50. This increase counts for the new jobs created by the companies as shown in the table no 11.

Table 11: New FTE Jobs Created in Q4 FY 2011

No	Province	Agribusiness Name	New FTE Jobs
1	Kabul	Hamid Flour Mill	13.2
2	Nangarhar	Javed Afghan Thresher Manufacturing Company	26
3	Balkh	Sanaizada Edible Oil Production Company	6
4	Nangarhar	Season Honey	4.8
TOTAL			50

The reason ACE has achieved 171 of 250 new jobs in FTEs is due to the relatively small number of agribusinesses supported through ADF loans. As the project was designed, ACE would disburse through financial intermediaries, which would then on-lend to agribusinesses and farmers. However, the risk faced by Afghan financial institutions transcends those of a weak institutional environment,

high transaction costs and obstacles for contract enforcement. ACE will reach the targets next year with an increased number of agribusinesses and the available data from farmers.

Indicator #2.1 – In quarter 4, ACE approved two new ADF grants. The first one is a challenge grant, worth a total of \$72,453, with the purpose to develop the capacities of Farm Stores and provide training in accounting to their member stores. The second ADF grant constitutes the first innovation grant awarded by ACE since the inception. The total for the grant was \$ 35,126 awarded to EFGA to engage Roshan/M-PAISA to facilitate repayment for EFGA members, and provide recipients of the ADF loan, through mobile money.

Table 12: ACE/ADF Grants issued in Q3 FY2011

No	Business Name	Province	Grant Purpose	Type of Grant	Approved Amount \$	Disbursed Amount \$
Clients Sensitive Information						

Indicator #2.2 – Even though ACE achieved final approval for seven new loans in the last quarter, only one of them is channeled through an intermediary. The Exporters' loan will be handled through Afghanistan Almond Industry Organization which is already an existing client; therefore, no intermediaries are reported for this quarter.

Indicator #2.3 – ACE launched another innovative lending product during the reporting quarter. The Sharia compliant Murabahah Profit-sharing product is an especially suitable instrument for lending to processing industries or by partially covering production costs for agriculture. The new product has already been used with four companies: Dr. Abdul Wakil Farmers Association, Afghan Red Gold Saffron Company, Sayed Jamal Flour Mill and Javed Afghan Thresher Company (second loan).

Indicator # 2.4 – All the ADF loans approved and signed to date have been repaid in time. (See Annex I for detailed information).

Indicator # 3.1 – As per the newly approved PMP and Annual Work Plan 2, the percentage change in domestic and export sales for firms supported by ACE will be reported in FY2012. During Option Year 1, ACE will determine the baseline.

Indicator # 3.2 - During this quarter there were no loans approved under USAID's DCA mechanism.

Indicator #3.3 – Even though ACE has already developed several proposals, there were no formal Public-private partnerships formed during this period.

Indicator #4.1 – In the fourth quarter, ACE organized one policy workshop to discuss the policy obstacles to the wheat value chain growth. Another policy workshop will be convened by mid-October to discuss saffron value chain growth constraints.

Indicator # 4.2 – The ACE MIS unit launched, through MAIL, the website, as well as the Watermelon and Melon Market Brief in two languages, Dari and Pashto. The generic structure of the Market Information database is now complete and ready to assist with agricultural and livestock market data.

The forth product launched during this quarter is the market brief “Pomegranate: An overview of Export Potential,” which has been completed in English.

Indicator #4.3 – ACE trained 15 staff during the reporting period; 12 of which, ACE/ADF personnel were trained in India on Human Relations; whereas three EFGA/CMU staff received training on Grants Financial and Program Reporting from September 12-13, 2011.

Indicator # 4.4 – The project provided 74 hours of person training, of which, 64 hours are from the Dale Carnegie Foundation on "Human Relations and Public Speaking" event and 12 hours are from Grants Financial and Program Reporting.

MONITORING FARMER BEENFICIARIES – Data Quality Assessment

The M&E Unit conducts systematic loan verification surveys to ensure the high quality of the data reported to ACE management and the client (USAID). During the last quarter, ACE monitored the disbursement to end-borrowers (farmer beneficiaries) for clients of Eastern Region Fruit Growers Association (EFGA), seven Bamyan Cooperatives, and Kunduz Seed Enterprises. A random sample of 5% of the EFGA beneficiaries, equal to 58 farmers was interviewed. The interviewed farmers represented 11 districts and 34 villages from the provinces of Laghman and Nangarhar. The findings of the rapid survey show that:

1. 100 % of the farmers interviewed were members of EFGA.
2. 100% of the farmers were given 600kg of fertilizer (worth of \$270) each.
3. 100% of the famers knew that this is a loan and has to be paid back.
4. 90% of the farmers were guaranteed by people, 7% provided collateral.
5. 3% of the farmers (2 people) interviewed were not asked to provide loan guarantees. These farmers are either the leaders of their villages or are well known by EFGA, and the association provided guarantee for them.

The M&E team travelled to Bamyan province on a loan verification mission for disbursement of ADF loans from cooperatives to end-borrowers. A geographically representative (at district level) sample of 10% of the population was carefully selected resulting with 34 farmers being interviewed. The findings show that:

1. 100% of the farmers interviewed planted potato for commercial purposes.
2. All the famers interviewed are members of Bamyan Cooperatives. 85% of the farmers were informed of the loan by their respective cooperatives and the remaining 15% were informed by DAIL.
3. 88% were requested for loan guarantees whereas 4 farmers (12%) were not asked for any loan guarantees due to social assets and credibility from the Head of the Cooperatives.
4. The farmers interviewed have received a maximum of 100 bags of fertilizer and 400 Seers (1 Seer = 7 Kg) of potato seed and a minimum of 4 bags of fertilizer and 40 Seers of potato seed.
5. 100% of the famers were aware that it was a loan and had to pay back.
6. One of the farmers interviewed did not get the seeds and fertilizers on loan himself but his sibling (the brother) did. The team investigated the case and found out that the loan was meant for the interviewee, however, at the day of the distribution the person was out of village. After communicating and confirming the actual recipient on the phone, the team replaced the name of the farmer with the actual recipient of the loan in the M&E database.

All the farmers interviewed were satisfied with the ACE/ADF loan provided to them. The farmers said: “the fertilizer and potato seed we have received will help a lot in producing better and more crops.” Thanking the ADF, the farmers showed great interest in the program to continue further in the future as well.

ACE conducted the third survey in Kunduz with 128 farmers, members of Kunduz Seed Enterprises, (SEs) which were claimed to have received partial payments upon the delivery of the wheat seed to SEs. The rapid survey indicated that:

1. All farmers were wheat seed producers and regular clients/members of the Seed Enterprises.
2. All the farmers had delivered their wheat seed to Kunduz Seed Enterprises and were reimbursed 100%.

This survey was especially sensitive due to the security issues in Kunduz Province. The survey was conducted in the districts of Aliabad, Archi, Chahar Dara, Imam Sahib, Khanabad, Kunduz and Qala-i-Zal. Despite this, the survey was carried out normally.

Impact Assessments and Research Studies

ACE conducts quarterly impact surveys for agribusinesses clients of the ADF. Once the loan contract (Heads of Terms) is signed, the M&E unit visits the client to conduct the baseline survey and obtain information on production, sales, income and employment. After this, the M&E officers visit the companies every quarter during the lifetime of the loan to keep track of changes or increases along those dimensions.

In late October-November, the ACE M&E unit in collaboration with the Value Chain team will conduct a research study in Bamyan to validate the hypothesis that the potato farmers, recipients of ADF seeds and fertilizers in kind, have yields of 20% higher than the non-ADF clients in Bamyan. The survey will be conducted at the end of the potato harvesting season in Bamyan (starting end of October) and the results will be available in the next quarterly reports as well as in the respective monthly report.

Communication and Outreach

The primary mode of communication and outreach for the Agricultural Development Fund proved to be the Agricultural Credit Shuras. As explained in Component I, the five Shuras held in Laghman, Bamyan, Paktya, Balkh and Kunar provinces, constitute the most effective way of promoting the ADF lending and raising awareness on its operations. The participants typically include farmers associations, agribusinesses, cooperatives, processors, DAIL officials and community leaders.

ACE also published Monthly Briefs on the following areas: Islamic Financing, lending to Pioneer Entrepreneurs, Managing Risk in Agriculture, and formalization of the ADF Advisory Board. All the briefs are posted on the ADF website in 3 languages. A Snap Shot titled “Nurturing Seed Industry” was published in the USAID–Afghanistan website:

http://afghanistan.usaid.gov/en/USAID/Article/2306/Nurturing_the_Seed_Industry

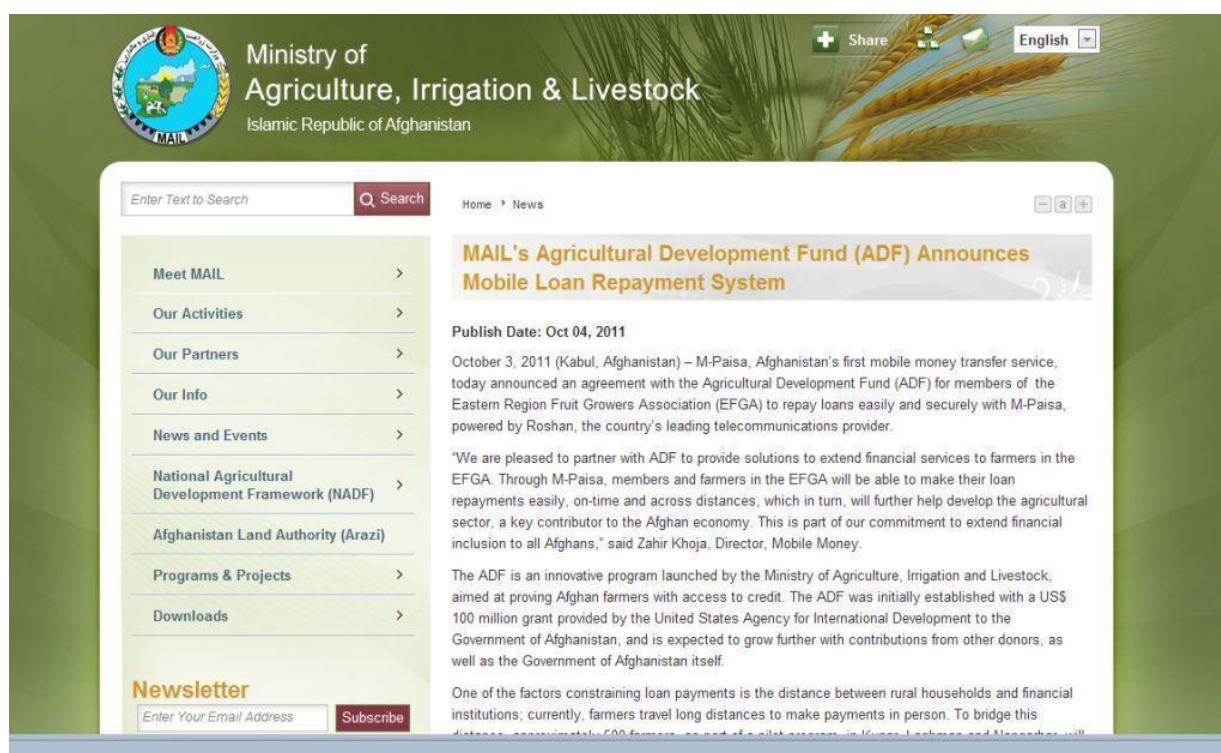
The story provides an overview on how ACE/ADF is supporting the growth of Afghanistan’s Seed Industry.

Sixty potential borrowers visited the ADF Customer Service Center located at MAIL, and 10 submitted expressions of interest that range from \$400,000 to \$3.4 million USD, adding up to \$12 million USD. During the reporting period, ACE finalized a TAMIS-based database for the Customer Service Center, as a way to keep track of the expressions of interest submitted and follow up activities.

After the approval of the M-PAISA grant for mobile loan repayment for the clients of the Eastern Region Fruit Growers Association, MAIL announced this innovative repayment instrument in their website:

“We are pleased to partner with ADF to provide solutions to extend financial services to farmers in the EFGA. Through M-Paisa, members and farmers in the EFGA will be able to make their loan repayments easily, on-time and across distances, which in turn, will further help develop the agricultural sector, a key contributor to the Afghan economy. This is part of our commitment to extend financial inclusion to all Afghans,”

This quote came from Zahir Khoja, Director of Mobile Money, and the announcement comprehensively summarized the Agricultural Development Fund activities, giving visibility to the ADF operations.



The Perishable Logistics Summit organized on September 25th 2011, at the Serena Hotel, with the participation of H.E. Minister Muhammad Asif Rahimi, Mr. Fazal Wasit, Acting Chief Executive Officer of the Export Promotion Agency of Afghanistan (EPAA); Mr. Mark Carrato, Director of the Office of Agriculture, USAID was attended by over 15 local and national media. The event was largely broadcasted in the media providing awareness and visibility on ADF opportunities.

Administrative and Human Resources

In the aftermath of staffing re-adjustments completed in the previous quarter, ACE hired three Short-Term technical advisors on lending, grants and cold storage/principle development functions. In the next quarter, ACE will hire two Short-Term advisors to assist ACE with the establishment of strong Credit Administration procedures for the ADF. Mr. Michael Alcorn and Mr. Steven Campbell will join the project as a Credit Administration Advisor and Information/communication Technology advisor, respectively. Under the leadership of Benjamin Turnbull, the team of three experts will design and establish ADF's Credit Management System. This 100-day exercise will end with the launch of the structure responsible for the generation of information for strategic decision making, safeguard the integrity of the Fund and strengthen the corporate governance of the ADF.

Mrs. Natalie Schoon has been selected and will join ACE as a short-term advisor on Sharia-Compliant lending starting in October. ACE is still looking to hire another Expatriate Lending Advisor which will be in charge of the Eastern Region; and has already identified several candidates. In the same way, the project is interviewing for Afghan National lending advisors. During the previous quarter, the ACE program hired four operations and finance staff in capacities such as finance, procurement and logistics. In the next quarter, ACE will hire a National Afghan Grants Manager and a CMU Administration Officer.

TABLE 13: Expatriate personnel deployed during Quarter 3 FY2011

No	Name	Position	Date
1	Allan Pineda	Lending Advisor	10-Aug-11
2	Lillian Rodas	Grants Advisor	22-Aug-11
3	Duke Burrus	Principle Development Specialist	16-Sep-11

TABLE 14: National Staff hired during Quarter 3 FY2011

No	Name	Position	Date
1	Abdullah Bawar	Logistic, Travel and Inventory Specialist	3-Jul-11
2	Fahim Shah Ahmadi	Translator / Interpreter Specialist	27-Jul-11
3	Frozan Sultani	Technical Audit- Admin Assistant	2-Aug-11
4	Ahmad Fahim Walyan	Finance Assistant	16-Aug-11
5	Zabiullah Rahimee	M & E Officer for Jalalabad	23-Aug-11
6	Barialai	Procurement Assistant	7-Aug-11

IMPLEMENTATION CHALLENGES

CHALLENGES

- Unresolved political issues between USAID and MAIL interrupted the flow of funds for lending. This is relevant considering that the ADF Credit Committee approved loans worth over US\$5 Million and there are some US\$17 Million in the pipeline. While ACE/ADF has not signed loan agreements with the borrowers, this delay will in all likelihood have a detrimental effect on the businesses of ADF clients and will negatively affect the credibility and image of the ADF.
- The unavailability of funds for lending is preventing ACE from meeting its contractual targets, and most importantly, it is preventing the program from having a stronger impact in the rural economies.

ACTIVITIES FOR THE NEXT QUARTER

- In the next quarter ACE aims at establishing a functional ADF Advisory Board that facilitates the process of registering the ADF as a legal entity. The Agricultural Development Fund will be registered before December 31st 2011.
- The project will continue strengthening the CMUs established to administer the ADF loans to non-financial intermediaries through financial management training and technical assistance for the collection of repayments.
- Present \$5-7 million USD worth of loan packages to the ADF Credit Committee, provided there is available funding.
- ACE will strengthen its stake on Islamic compliant financial lending through hiring one (or more) international consultant specialized in Sharia lending to work together with the ACE lending team.
- The project will organize the Saffron Value Chain and Policy Workshops in Herat together with the Agricultural Credit Shura within October.
- Partner with MAIL to organize a joint launch for the Knowledge Management Platform/PAYWAND database and website.
- As part of its capacity building program, ACE will deliver 2 training sessions for ACE/ADF and MAIL staff in the areas of “Islamic Finance” and “Financial Analysis”

ANNEX I – Percentage of Loan Losses Resulting from ACE Lending Recommendations

No	Name of Business	Province	District	Amount (\$)	Type of Business	Start Date	End Date	Actual Amount Disbursed	Repayments due (m/d/y)	Expected Value (\$) to date	Actual Value (\$) to date	Percentage Loss
Clients Sensitive Information												